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SM/85/307
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

November 26, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Sierra Leone - Staff Report for the 1985 Article IV Consultation

The attached page 17 "Table 5. Sierra Leone: Medium-Term Balance of Payments Projections, 1984/85-1989/90" should replace the one which was inadvertently included in SM/85/307 (11/14/85).

Att: (1)

Other Distribution:
Department Heads

Table 5. Sierra Leone: Medium-Term Balance of Payments Projections, 1984/85-1989/90

(In millions of SDRs)

	Scenario A 1/						Scenario B 2/				
	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1985/86	1986/87	1987/88	1988/89	1989/90
Trade balance	-13.6	-14.0	-14.7	-15.6	-16.4	-17.3	11.3	8.4	8.2	7.9	5.4
Exports	127.5	125.7	127.1	133.0	139.3	145.9	147.8	158.0	164.0	169.0	173.0
Imports	141.1	139.7	141.8	148.6	155.7	163.2	136.5	149.6	155.8	161.1	167.6
Of which:											
Rice	(27.9)	(24.0)	(25.8)	(27.8)	(29.9)	(32.1)	(23.0)	(21.0)	(19.0)	(17.0)	(15.0)
Oil	(47.7)	(47.2)	(49.3)	(51.7)	(53.9)	(56.5)	(47.2)	(42.2)	(44.3)	(46.2)	(48.4)
Kimberlite project	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Energy rehab. project	(--)	(0.7)	(2.7)	(2.7)	(2.7)	(2.7)	(0.8)	(3.6)	(3.6)	(3.6)	(3.6)
IBRD sectoral project	(6.5)	(7.3)	(5.3)	(5.3)	(5.3)	(5.3)	(8.5)	(6.9)	(6.9)	(6.9)	(6.9)
Other imports	(59.0)	(60.5)	(58.7)	(61.1)	(63.9)	(66.6)	(57.0)	(75.9)	(82.0)	(87.4)	(93.7)
Services balance	-69.1	-74.6	-73.8	-73.4	-72.6	-72.8	-87.0	-100.4	-101.8	-101.5	-102.4
Of which:											
Official int. ^{3/}	(-28.5)	(-36.0)	(-35.9)	(-36.2)	(-35.9)	(-35.8)	(36.0)	(-35.9)	(-36.2)	(-35.9)	(-35.8)
Investment income	(--)	(--)	(--)	(--)	(--)	(--)	(-13.0)	(-26.0)	(-27.8)	(-28.6)	(-29.3)
Private transfers	1.9	1.8	1.9	2.0	2.1	2.2	2.0	2.2	2.3	2.4	2.5
Current account	-80.8	-86.8	-86.6	-87.0	-86.9	-87.9	-73.7	-89.8	-91.3	-91.2	-94.5
Government transfers	19.3	18.2	18.7	19.3	19.9	20.5	20.3	21.0	22.0	22.0	23.0
Long-term capital	13.6	3.1	5.2	4.6	8.2	12.6	16.3	31.8	32.3	36.7	42.0
Official capital	10.3	0.9	3.0	2.4	6.0	10.4	3.8	5.0	4.2	7.7	12.0
Official drawings	(32.8) ^{4/}	(24.2)	(25.2)	(26.2)	(27.3)	(28.4)	(27.1)	(27.5)	(28.0)	(29.0)	(30.0)
Of which:											
IBRD sectoral project	(8.1)	(9.1)	(6.6)	(6.6)	(6.6)	(6.6)	(10.6)	(8.6)	(8.6)	(8.6)	(8.6)
IBRD energy rehab.	(--)	(0.9)	(3.4)	(3.4)	(3.4)	(3.4)	(1.0)	(4.5)	(4.5)	(4.5)	(4.5)
Repayments	(-22.5)	(-23.3)	(-22.2)	(-23.8)	(-21.3)	(-18.0)	(-23.3)	(-22.5)	(-23.8)	(-21.3)	(-18.0)
Of which:											
Trust Fund	(-2.9)	(-4.7)	(-4.9)	(-5.7)	(-3.4)	(-2.0)	(-4.7)	(-4.9)	(-5.7)	(-3.4)	(-2.0)
Private capital	3.3	2.2	2.2	2.2	2.2	2.2	12.5	26.8	28.1	29.0	30.0
Of which:											
Export earnings retained	(-12.4)	(-10.8)	(-11.6)	(-12.0)	(-12.5)	(-13.1)	(-7.0)	(--)	(--)	(--)	(--)
Reinvestment of earnings	(--)	(--)	(--)	(--)	(--)	(--)	(6.5)	(13.0)	(13.9)	(14.3)	(14.7)
Short-term capital and errors and omissions	16.0	--	--	--	--	--	--	--	--	--	--
Overall balance	-31.9	-65.5	-62.7	-63.1	-58.8	-54.8	-37.1	-37.0	-37.0	-32.5	-29.5
Financing	31.9	65.5	62.7	63.1	58.8	54.8	37.1	37.0	37.0	32.5	29.5
Fund repurchases	-9.4	-13.6	-18.1	-22.6	-9.3	-4.8	-13.6	-18.1	-22.6	-9.3	-4.8
Financing gap	41.3 ^{5/}	79.1	80.8	85.7	68.1	59.6	50.7	55.1	59.6	41.8	34.3

Source: Sierra Leonean authorities; and Fund staff projections.

1/ Assumes continuation of present policies.

2/ Assumes a flexible exchange rate system and a liberal foreign exchange system for current payments.

3/ Excludes interest payments on balance of payments financing to clear the financing gap, but includes interest payments on outstanding arrears.

4/ Includes cancellation of German loans (SDR 9.5 million).

5/ Financed by debt relief, accumulation of arrears and reduction of reserves.

relief, to remain very high (Table 6), with the result that the overall balance of payments deficit is projected to increase sharply. When repurchases to the Fund are taken into account, there would be substantial financing gaps, averaging about SDR 76 million per annum over the next five years. However, in view of the expected continued dearth of foreign exchange, the financing gaps essentially represent a projection of Sierra Leone's nonpayment of its external debt obligations during the period.

Under Scenario B, the value of exports is assumed to grow by about 6 percent annually in the medium term, reflecting a number of factors: in the mineral sector, these include a return of DIMINCO's operations to normal levels; the resumption of operations by exporters (such as DICOR and others, as well as those in the gold sectors) presently unable to compete legally at the prevailing inappropriate official exchange rate. Similarly, exports of agricultural commodities, including coffee, cocoa, and palm kernels, are projected to increase significantly under an appropriate flexible exchange arrangement.

Regarding imports, their value is assumed to increase by about 3.5 percent annually from 1984/85. In this context, it is assumed that the value of oil imports will average SDR 45 million, reflecting the limited scope for further significant economies in the consumption of petroleum products. Rice imports are projected to decline gradually over the period, in line with an assumption of increased domestic production, including under project assistance, in the context of appropriate domestic policies. The remaining non-oil, non-rice imports are assumed to increase by an annual average of 6 percent, reflecting a resumption of bilateral and multilateral development inflows under Scenario B, as well as the assumed liberalization of the import regime.

Consequently, the current account deficit under Scenario B would average SDR 88 million in the medium term. However, in view of the expected higher inflows of development receipts, as well as the impact of policies designed to eliminate retention privileges, the overall deficit, before debt rescheduling, would be considerably lower, averaging SDR 35 million under Scenario B, compared with an average of SDR 60 million under Scenario A. After taking account of repurchases to the Fund, a financing gap averaging SDR 48 million remains under Scenario B, compared with an average financing gap under Scenario A of SDR 75 million. However, unlike under Scenario A, the financing gap under Scenario B could be filled, under the assumption of appropriate policies and a continued strong adjustment effort, through concessional and exceptional financing, including debt relief.